

The explosion of diplomatic warfare between Saudi Arabia and Iran, caused by the execution of 47 prisoners by Riyadh, has come for some as a surprise, but the writing has been on the wall for some years. The current diplomatic row, fueled by Riyadh's decision to execute Saudi Shi'ite Sheikh Nimr al Nimr, together with 46 others, and the ransacking by Iranian protesters of the Saudi Embassy in Tehran, is just a sign of the internal and external conflicts in both countries. Since the execution of the Shi'ite sheikh, tension between Saudi Arabia and Iran has reached the boiling point. News emerged about Iranian claims that a Saudi-led coalition airstrike has struck the Iranian embassy in Sanaa, Yemen. Even though there are doubts about the validity of this claim, the tit-for-tat approach between the two regional power players has entered a new phase. At the same time, Bahrain, a staunch Saudi supporter facing its own Shi'ite uprising, has claimed that it has arrested a terrorist cell with ties to the Iranian Revolutionary Guard Corps (IRGC) and Hezbollah. Bahrain claims that the cell was plotting bomb attacks.

In a reaction to Saudi Arabia's breaking off its diplomatic and economic relations with Iran, Tehran has now banned the import of Saudi goods for sale in the country. Iran seems to be on the wrong side of the coin, even though European and Western politicians and media are taking its side. More and more Islamic countries, including Saudi's main Sunni opponent Qatar and Djibouti, have now joined Riyadh in its protest against Tehran. Qatar has recalled its ambassador from Tehran. The anti-Iran front now seems to be building up strength, supported by other Arab countries such as Egypt, Sudan, Kuwait, UAE and Jordan. The outcome of the current conflict is totally unclear, but signs show that the stand-off between the two main adversaries could further destabilize the region or even end with a full military confrontation.

Still, the latter doomsday scenario will depend on some of the underlying factors that have led to the current situation. To understand them, some background is needed. The current confrontation has been rooted in history, not only religiously but also due to geopolitical and regional power changes. For Saudi Arabia, it has become clear that the effects of the Arab Spring (or Winter) have been much more negative than expected before. The role of the old regimes, most of them backed by Western powers, has diminished or is under extreme pressure. The removal of three long-standing dictators, Egypt's Husni Mubarak, Libya's Muammar Gadhafi and Tunisia's Ben Ali, has shown to the remaining theocratic regimes that change is imminent.

Saudi Iranian crisis: Religion, power and oil

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The pro-change course supported by the Western powers (US, EU) has not only caused anger in most of the GCC countries, but also has shown them not to rely on Western support in case of a political or military emergency. The old adagio of the Carter Doctrine was totally thrown away by Washington again. After the removal of the Shah in Iran, Arab countries now also were confronted by the unwillingness of its Western allies to intervene on their behalf. The democratization pushed by Washington and Brussels has only increased the support base of extreme Muslim fundamentalist groups, such as the Ikhwan al Muslimiin in Egypt, the Salafi and Al Qaida opposition in Libya and to a Shi'ite led revolt in Bahrain. No stabilizing support for the existing regimes has been given at all by the West, at least in the eyes of the Arab monarchs and enlightened despots. This has diminished Western influence in the region; calls for restraint and democratization/Human Rights are being shrugged off. At the same time, Arab countries have realized that they should be taking the future in their own hands. Possible samples of this new assertiveness is the growing military cooperation of the Gulf Cooperation Council (GCC) members and countries such as Egypt. Regional military operations are already in place, addressing the threat of fundamentalist groups in Yemen and Libya. Covert actions are also being conducted, especially in the Syria arena. Saudi Arabia, as one of the most threatened countries in the region, stepped up its full scale assertive military strategy after the death of King Abdullah. His successor, King Salman, has been openly less averse to taking risks inside of the geopolitical arena as his predecessor. The appointment of his son, Prince Mohammed bin Salman, as deputy Crown Prince and Minister of Defense, falls in-line with the latter. Prince Mohammed has been the main supporter and organizer of the Yemen military intervention, and is rumored also to be supporting Saudi involvement in Syria. Since the beginning Prince Mohammed has been a very harsh critic of Iranian actions in Syria and Yemen, making him one of the staunchest adversaries to a rapprochement with Tehran.

At the same time, the USA, EU and the UN, stepped up efforts to reach an agreement with Iran to supposedly end its nuclear program. After a long period of discussions and negotiations, a deal has been reached, which was welcomed by the West and Iran (and Russia). No attention almost however was given to the very high level of opposition to any rapprochement with Iran inside of all Arab countries, with the exception of Syria and Oman. A majority of the Arab countries, led by Saudi Arabia and Egypt, openly stated that a nuclear deal of the P5+1 would be a disaster for the MENA region; despite that it was pursued and supported by the West. Sworn-enemies Israel and Saudi Arabia have been openly coordinating their efforts to block the deal, without success. This geopolitical change of attitude of the West has even more increased the apprehension of Arab countries regarding support by the West in case of an emergency. Washington, Brussels, London and Berlin, definitely have not understood the fears and anxiety of Arab neighbors that a re-emerging Iran is a deadly threat to the future of the GCC and Egypt. Iran's re-emergence on the international stage - it is already openly involved in Syria, Yemen and Bahrain - is seen as a deadly threat to Saudi Arabia and other GCC countries. Tehran's support for the Shi'a led government of Iraq is also for most a re-emergence of the old conflict between Sunni Arab countries and Shi'a led Iranian proxies. Without the support of the US and the EU, the Saudis are feeling the need to take the matter into their own hands. Still, even if geopolitical relations inside of the Gulf region would have been cold, no real danger should have existed for a military confrontation between the two blocks. However, two other

developments have put this in doubt.

First, the unexpected success of a new fundamentalist Sunni extremist group, ISIS/Daesh, has changed the geopolitical and military situation totally. The successes of Daesh in Syria and Iraq have not only put fear into the hearts of the two countries' inhabitants, but also resulted in a more aggressive military engagement of Sunni and Shi'a forces. Iran's support for Syria's dictator Assad, supported by Hezbollah, has prevented the end of the Baath regime in Syria. At the same time, the full-scale military involvement of the Iranian Revolutionary Guards Corps (IRGC) in the Iraqi military counter attack over the last months has also shown that Iran is taking the lead in a move to block or remove Daesh inside of Iraq. GCC countries have been watching this with fear, not having an answer to the ongoing conflict. The fear of Daesh was partly countered by the anger of looking at Shi'a led militias rooting whole Sunni regions, currently under Daesh rule. Saudi Arabia, and several others Arab Gulf countries, have been very angry and worried about Iran's direct involvement, especially after the Iraqi government asked for Tehran's support. A two-front war was developing between Sunni and Shi'a forces in Syria and Iraq. Again, Western coalition forces have had a dubious geopolitical and military role. By bombing Daesh infrastructure and forces, they have been instrumental partly to the success of Shi'a forces in Syria and Iraq, leading in the end to a stronger position for Iran in both arenas.

Secondly, the position and strength of the Middle East's most treasured resource, which is not water, but oil, has been fundamentally undermined. After years of high crude oil prices (and natural gas), an oil glut has become a fact of life. All Arab countries and Iran are dependent on the revenues generated from oil and gas exports. Saudi Arabia, as leader of the international oil cartel OPEC, has been always able to partly influence the oil market. The fact that three main OPEC producers have been partly out of the market for decades (Iraq, Iran, Libya), was one of the pillars of the cartel's success story. In spite of long-term investments and national strategies, OPEC members have been always adhering to its quota agreements. Of course, most of the time, quota levels were exceeded, but in general the oil market was not flooded by additional production. The re-emergence of the US as an oil and gas producer (shale), the success story of Africa (Angola, Mozambique), and the continuing production increase of Russia (FSU), however has undermined OPEC's overall market powers. Still, the cartel was able to quell new additional production volumes of its own members. The Arab Spring did the rest, as some have stated. Libya's vast crude oil production was taken out of the market, while Iraq's expected oil volume increase did not materialize. Iran, the sleeping giant, could not enter the market due to international sanctions. This all changed dramatically over the last year. All producers worldwide have registered higher production volumes, while OPEC countries were not willing to take out their own production. Saudi Arabia was and is willing to fight for market share instead of going for higher price levels. Success is imminent, as at current price levels un conventionals and most non-OPEC production has become commercially unfeasible. The Saudi strategy seemed to working until Iran re-entered the market. The possible lifting of sanctions is expected to result in much higher Iranian oil exports within the next 3-5 years. Even though analysts are doubting some of the figures, the oil market has already factored this development into the

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current price settings. For most Arab countries, the current OPEC strategy is becoming a threat. Countries such as Bahrain, Kuwait, Libya or Oman, need to have higher oil prices to counter growing government budget deficits. Saudi Arabia, almost fully dependent on its oil export revenues, is still not threatened but is also feeling the brunt of a more stringent fiscal situation. The need to control the market is clear, but a stronger Iranian position inside of OPEC is not welcomed and somehow seen as a potentially life-threatening situation by the Saudi regime. A possible Iran-Iraq alliance in OPEC could even threaten its future. Lower revenues in Saudi Arabia already have resulted in severe economic measures, such as the lifting of several energy subsidies and an increase of fuel prices. At the same time, Saudi's military engagement in Yemen and Syria, and its financial support of Egypt, has left Riyadh less room for financial maneuvering. Over the last decades internal opposition in Saudi Arabia, especially of the unemployed young strata of society, was paid off with multi-billion investment programs or outright payments. In the current situation the Saudi royal elite is not anymore able to hand-over new multi-billion grants to its citizens.

The situation on the ground in Saudi Arabia has become dire. Not only is the Saudi elite forced to quell normal opposition coming from the elite Sunni groups and other power players, but its Shi'a minority is also becoming more vocal. Saudi's Eastern Province, well-known as it harbors almost all of the Kingdom's oil and gas reserves, is also a Shi'a province. Historical links are there between this region and the Shi'a groups in Bahrain (just one bridge away) and Iran. Some reports have already stipulated that Iran is behind some of the revolts that have occurred in the Eastern Province, but this still needs to be proven. Just over the bridge in Bahrain, Iran's involvement is clear. The Shi'a opposition is partly being supported by Iranian financial backing, and arms are sometimes smuggled into the Island Kingdom. The current new unrest on the streets in Bahrain is a great worry to Riyadh. A new military/security intervention of Saudi forces could be imminent if the Bahraini King asks for help. Proof of Iranian involvement in the politics and security of Bahrain is seen as an act-of-war by Saudi Arabia, and possibly also by several other Arab GCC states.

The Saudi position should however not be taken as the main leading factor in the current conflict. Iran's internal politics are also playing an important role. Iranian hard-liners at present are fearing the possible effects of the lifting of the US-EU sanctions. The possible opening of Iran to the global market is seen as an instrument that will allow infiltration of Western ideas. As is the case on the Saudi side, Iranian moves are driven by domestic politics. A rapprochement between Iran and the US, their historical main enemy (together with Israel) is seen as a very large danger to the current position of the ruling Shi'a religious elite. The hardliners surrounding Ayatollah Khamenei, whose position with regards to the P5+1 deal is diffuse, don't want any change in their overall position. A more open economy would however mean that the position of main power players, such as the IRGC, could be undermined. A further integration of Iran into the West is seen as a deadly threat for the Khomeini Legacy of the Velayet a Faqih power structure. In how far this is an existential threat to the role of the Ayatollahs is unclear, as you also could argue that opening up to international financial and energy markets will bring in the necessary resources to increase Iran's overall economic and military position in the region. It will not be very strange if a large percentage of projected investments in Iran's oil, gas, infrastructure and industry, will end up in the hands of hard-line groups such as the IRGC, as

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the latter is involved in vast parts of the Iranian economy. An international transfer of money or arms, resulting from this financial influx into Iran, should be expected (as Arab countries have been warning). The pros and cons for Iran's hard-line elite are still being weighed.

Washington's gamble, supported by the P5 members, to open up to an already more assertive Iran could be having some unwanted results. Arab countries, already wary of the intentions of the West, are forced to be more assertive and aggressive themselves. Without a Western security umbrella they are feeling relatively naked in a region full of turmoil. At the same time, Iran, which is seen by most as an arch-enemy on cultural and religious grounds, has been given the chance to increase its strength. The optimistic views of Western politicians that you can change a fundamentalist regime by increasing its economic position, allowing democratic forces to do their work, is removed from reality. The Arab Spring has proven this is not the case, at least not for the first decades.

No direct military confrontation is expected very soon. Most danger at present is that the growing conflict or outright hatred, fueled by power politics and religion, will mean a further destabilization of the whole region. Without any doubt hardliners on both sides will be able to force the respective regimes to increase their financial and military support for proxy-war forces in Syria, Yemen, Bahrain, Libya and Iraq. At the same time, a Sunni coalition is being forged in which not only MENA based Sunni countries are taking part but also countries such as Turkey (NATO), Indonesia, Pakistan and others. A myriad of conflicts is able to emerge from this Sunni-Shi'a conflict, which will not be stoppable without harsh measures. The position currently taken by Washington and the EU (NATO) is not likely to be helpful. The unwillingness to be pro-actively militarily involved with Arab allies will have a cost beyond current estimates. Already it is clear that with a very diffuse geopolitical strategy in the Middle East, betting on both sides of the coin is counterproductive. The current situation, in which Saudi Arabia and Iran are unwilling to talk to each other anymore, already will lead to a full stagnation of any peace process in Syria. It will additionally increase instability in Iraq, prolong the war in Yemen, and possibly effect security from Libya to Bahrain. Cooperation between the two countries is essential for any stability program in the region. Without both sides at the table there also will not be any feasible solution to defeat Daesh in the short term.

For the next months, it is to be expected that the situation will heat up even more, with a direct impact in the proxy-wars. The military stalemate in Yemen, where a proxy-war is being fought between a Saudi Sunni led coalition and Iranian backed Houthis, has ended. Saudi led coalition forces are being accused of an intensified military operation, which has effectively ended the negotiations and cease-fire of the last weeks. At the same time, analysts are expecting that in Syria, another proxy-war arena, both sides will intensify their operations and increase support to the respective armed groups - Saudi-UAE-Egypt and the Assad-led Syrian government forces backed by Russia and Iran. The overall picture can become even bleaker as both sides spread

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the regional conflict and religious extremism into other countries. The main worries are that Iran will push for a more aggressive stance of Hezbollah (Shi'ite militia in Lebanon) to increase tensions in Lebanon (Christian-Sunni-Shia government) or act against Israel. Iran is also able to increase its support for Hamas in Gaza, which will not only lead to military confrontation with Israel, but also undermine the already very unstable Palestinian Authority (Fatah) on the West Bank. Further destabilization there could result into a situation in which Israel needs to become a party in the total conflict also. It is to be expected that in the next months, more violence and outright military operations will become visible in several other countries, supported by Saudi and/or Iranian led forces. A full scale military conflict still is very unlikely as their military capabilities are not sufficient. At the same time, both countries don't have direct physical borders, but are linked to each other via open sea. The total picture could however change dramatically if the existing internal power strife of the Saudi royal family, or princes, would explode. A destabilized Saudi government would result in a total implosion of the Kingdom, leaving room for groups such as Daesh or Al Qaida to take advantage. Already, the Islamic State has officially addressed the option of attacking Saudi Arabia on its own territory the coming months. Islamic State militants have the most to gain from the ongoing crisis or an imploding Saudi Kingdom.

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